

You just applied for a mortgage and were denied due to negative information on your credit report. You thought you'd paid off that old electric bill, but it has suddenly resurfaced – and it is lowering your credit score.

Or perhaps you forgot about that credit card you opened in college. Now a debt collector sends you a letter or telephones you claiming they are owners of the debt... and you better pay what you owe plus interest and fees that have been accruing over the past several years.

You have just been hit by “Zombie Debt”. These are debts that seem to rise from the dead, without warning. And just like zombies, they can be extremely difficult to get rid of permanently.

How is Zombie Debt created?

We are all extended credit every day for a variety of reasons. The most common example is a credit card. So are your mortgage, your car loan, and your student loan. You can also create a credit relationship when you obtain utility services or receive medical care without prepayment.

When you do not pay the balance that you owe, the creditor is entitled to charge interest and late fees. After several months without payment, the creditor is entitled to “charge off” the debt. For credit cards, this is usually a period of 180 days. A “charge off” is done for accounting and tax purposes, and it simply means that the company has labeled the debt as unlikely to be collected.

Zombie Debt occurs when old accounts are “charged off” by the original creditors (for instance, the credit card company) and then sold to collection agencies for pennies on the dollar. These debts are often sold and then re-sold over time. During the time that your past due balance is being handed from agency to agency, you may not even know it. Eventually it ends up at a collection agency that begins trying to actually recover the debt by contacting you.

What should I do if I am contacted by a debt collector?

Debt collectors can be very aggressive and intimidating in their attempts to get you to agree to pay off the debt. They can be extremely difficult to negotiate with and often will attempt to bully you into reaching an agreement.

Many times, individuals become so upset dealing with the debt collector that they will pay off a debt that they are not even sure they actually owe just to stop the phone calls. Knowing your rights will help you handle the debt collector properly.

You have a right to request that the debt collector provide verification of the debt. You must request this in writing within thirty days of receiving the first notice of the debt.

You should send this notice by certified mail, return receipt requested, to prove that it was received by the creditor.

Within thirty days of receiving your request, the debt collector must provide verification. Verification should include proof of the debt from the original creditor (for instance, a copy of the original credit card application and a copy of the final bill).

You should also receive an assignment of the debt verifying that this agency has properly acquired the debt. Because these accounts are often sold multiple times, you should receive all assignments, from the original creditor all the way to the debt collector.

Often the debt collector will simply send you a computer printout showing the balance due. This is NOT sufficient. The debt collector may also tell you that you have to request that information from the original debtor yourself. This is also not correct – the law requires the debt collector to send this information to you.

If the debt collector cannot provide verification of the debt within thirty days, it cannot continue to attempt to collect the debt and it cannot list the debt on your credit report. If the debt continues to appear on your credit report, you can dispute the debt directly with the credit reporting agencies.

I received the verification. Why is the balance they are saying I owe so much higher than the balance on my last bill?

A “charge off” does not cancel the debt. Interest and late fees will continue to accrue as outlined in your loan agreement. For credit cards, there is often a default interest rate that can be as high as 32.99%. If the account has been referred to an attorney’s office for collection, the loan agreement will usually allow for reasonable attorney’s fees as well (this is normally interpreted to be 10-15% of the principle balance).

What if I don’t believe this debt is mine, or it was mine but I already paid it?

If the bill belongs to someone with a similar name, you can dispute the debt by providing verification of your identity. If it is someone with an identical name, you can dispute the debt by demonstrating that you have a different social security number (you do not have to provide your entire number – a copy of your card with part of the number blacked out is sufficient) or by demonstrating that you have never lived at the address on the bill.

If the bill has already been paid, you can provide verification by cancelled check or credit card statement showing the withdrawal. You should black out all personal information, such as your account number, before sending this to the creditor.

If you are the victim of identity theft, you should consult www.ftc.gov for instructions on obtaining an identity theft report and providing proper verification to the creditor. Once the debt collector has received proper notice that the account is a result of identity theft, they must cease collection and remove it from your credit report.

What if this is my debt, but it is several years old?

Every state has its own statute of limitations. The statute of limitations sets the amount of time the creditor has to file suit against you. In Maryland, for instance, the statute of limitations on a credit card balance is three years from the date of the last activity (a charge or a payment). You should always check the statute of limitations for your state.

Often, debt collectors will still attempt to collect a debt even when the statute of limitations has passed. It is permissible for them to contact you. Some have even filed suit knowing the statute of limitations has passed. If this occurs, the statute of limitations can be used as a defense to the suit, and can keep a judgment from being entered against you.

If the statute of limitations has passed, why is the debt still on my credit report?

The statute of limitations controls how long the creditor has to file suit. Federal law controls how long an account or a debt stays on your credit report. An account that has been charged off can remain on your report for up to seven years.

Often, debt collectors will use this fact to collect debts that are older. Negative information on your credit report can keep you from obtaining a mortgage, a home equity loan or a car loan. The debt collector will offer to remove the negative information if you pay on the account. You should be aware, however, that the “charge off” will often still appear on your credit report – it will just show up as a settled account rather than an open account.

Debt collectors will sometimes report information on the account to artificially keep it on your credit report for a longer period of time. If this occurs, you should notify the credit reporting agency and provide verification of the actual date of the bill.

What if this is a debt that I agree I owe?

If the debt is valid, you can attempt to work out an agreement with the debt collector. Debt collectors will often accept a reduced amount if you are able to pay it in a lump sum. Many will agree to accept monthly payments.

However, when speaking to the debt collector, you should be very careful. Any agreement, even just a general verbal acknowledgement, that the debt is valid may restart the statute of limitations.

If you reach an agreement with the debt collector, make sure to get it in writing. You should also insist on an acknowledgement from the debt collector once the account has been paid in full.

How can I get the debt collector to stop calling me?

Most people do not realize that they have a right to stop the debt collector from contacting them completely. To do this, you must send written notice to the debt collector informing them that they are not permitted to contact you in any way.

Once that notice is received, the debt collector may contact you, one time only, in writing, to either inform you that they are no longer attempting to collect the debt or that they are going to take specific actions.

You may also retain an attorney to assist you in dealing with the debt collector. If the debt collector is aware you have an attorney, they may not contact you directly for any reason. They may only contact the attorney.